

EXECUTIVE SUMMARY

The Five-Year Financial Forecast is a budgetary planning tool used by the City to identify significant issues that must be addressed over the next five fiscal years. The Forecast focuses on the General Fund, and eight other funds to include the Community & Visitor Facilities Special Revenue Fund, the Golf Special Revenue Fund, the Storm Water Special Revenue Fund, the Aviation Enterprise Fund, the Environmental Services Enterprise Fund, the Parking Enterprise Fund, the Employee Benefits Self-Insurance Fund, and the Workers Compensation Self-Insurance Fund. The Forecast is organized as follows:

- A historical review of trends observed in local economic conditions and a presentation of forecasted national and local economic conditions for the next five fiscal years (Chapter II, Economic Perspective & Outlook).
- Financial projections for the General Fund comparing anticipated revenues and expenditures (Chapter III, General Fund Forecast).
- Financial projections for the Community & Visitor Facilities Special Revenue Fund, the Golf Special Revenue Fund, the Storm Water Special Revenue Fund, the Aviation Enterprise Fund, the Environmental Services Enterprise Fund, the Parking Enterprise Fund, the Employee Benefits Self-Insurance Fund, and the Workers' Compensation Self-Insurance Fund. (Chapter IV, Other Funds Forecast).

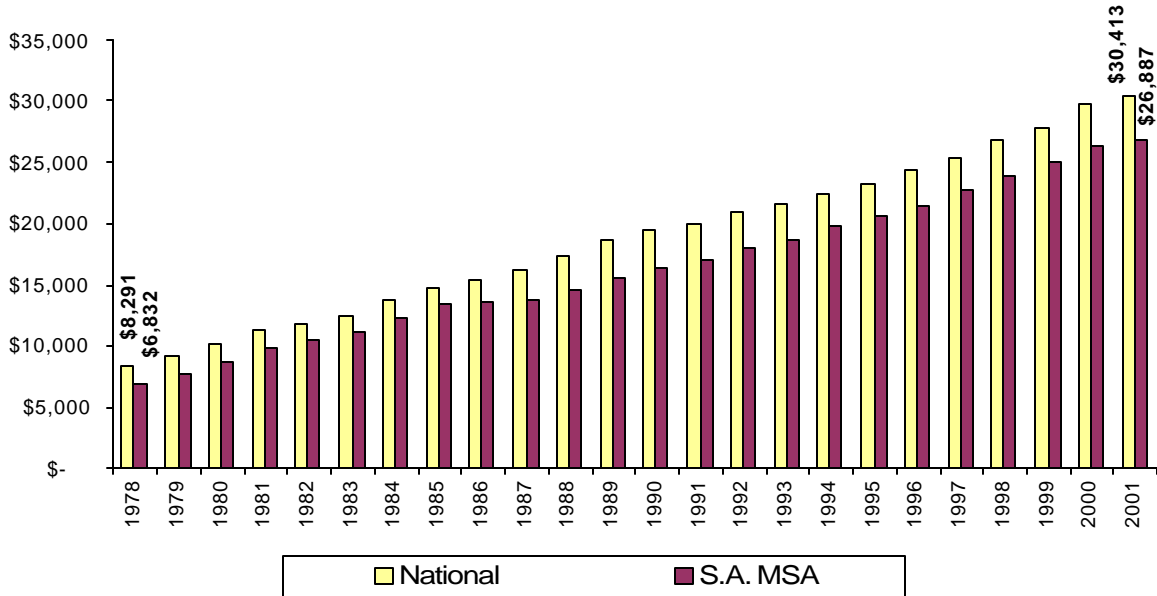
A. Economic Perspective and Outlook

A forecast of the City's finances cannot be made without explicitly recognizing that the City's fiscal health is directly linked to the success of the local and national economies. In light of this important relationship, the fiscal projections provided in this document are based in large part upon a thorough analysis of historic economic trends in addition to those noted in City government revenues and expenditures. This chapter makes projections for the local and national economies which will establish the foundation for the fiscal projections presented later in this document.

Local Economic Performance vs. National Economic Performance

To demonstrate how closely linked San Antonio's economy is to the national economy, the chart below compares the San Antonio MSA's per capita income growth to national per capita income growth. Figure 1 provides this comparison from 1978 to 2001 (2001 is the latest year that national and local per capita income data is available from the U.S. Commerce Department). As can be seen from the chart, the local per capita income increase has remained close to the national level. In 1978, San Antonio's per capita income was \$6,832 compared to the national per capita income of \$8,291. By 2001, local per capita income moved to \$26,887 compared to \$30,413 at the national level.

Figure 1
National vs. San Antonio MSA
Per Capita Income
1978 to 2001



Source: U.S. Bureau of Economic Analysis

National Economic Projections

From 1978 to 2001, the national per capita income has grown 293.5% compared to 266.8% growth in the San Antonio MSA per capita income during the same period - a difference of 26.7 percentage points. Additionally, since 1991, San Antonio's personal income per capita growth has outpaced national income per capita growth by 65% to 55%, respectively.

The projections for the key national economic indicators come from Economy.com, Inc. (formerly Regional Financial Associates, an econometric firm cited in many national news publications). A combined listing of the indicator projections is provided in Table 1 following the descriptions of each indicator forecast.

Table 1
Summary of Forecast Key Economic Indicators

Year	Gross Domestic Product		Consumer Price Index		U.S. Unemployment
	Billions	Pctg. Chg.	Index	Pctg. Chg.	
1997	8,704.0	11.4%	160.5	2.3%	4.9%
1998	9,067.0	4.2%	163.0	1.6%	4.5%
1999	9,470.0	4.4%	166.6	2.2%	4.2%
2000	9,817.0	3.7%	172.2	3.4%	4.0%
2001	9,867.0	0.5%	177.1	2.8%	4.8%
2002	10,083.0	2.2%	179.9	1.6%	5.8%
2003	10,398.0	3.1%	184.0	2.3%	6.0%
2004	10,861.0	4.5%	187.5	1.9%	5.8%
2005	11,213.0	3.2%	192.1	2.5%	5.7%
2006	11,622.0	3.6%	197.0	2.5%	5.5%
2007	12,053.0	3.7%	202.1	2.6%	5.4%
2008	12,457.0	3.4%	207.4	2.6%	5.2%
2009	12,874.3	3.4%	212.8	2.6%	5.2%

Source: Actual Data from U.S. Bureau of Economic Analysis. Projections from Economy.com

While in the short-term, the national economy is working its way out of the uncertainties associated with recent global growth, the longer term economic prospects for the nation are set for modest growth. Beginning in 2003, annual GDP growth will continue to exceed 3.0%, while inflation will settle into a sub-three percent annual rate of increase. National unemployment will begin to decline, albeit slowly, over the next five years.

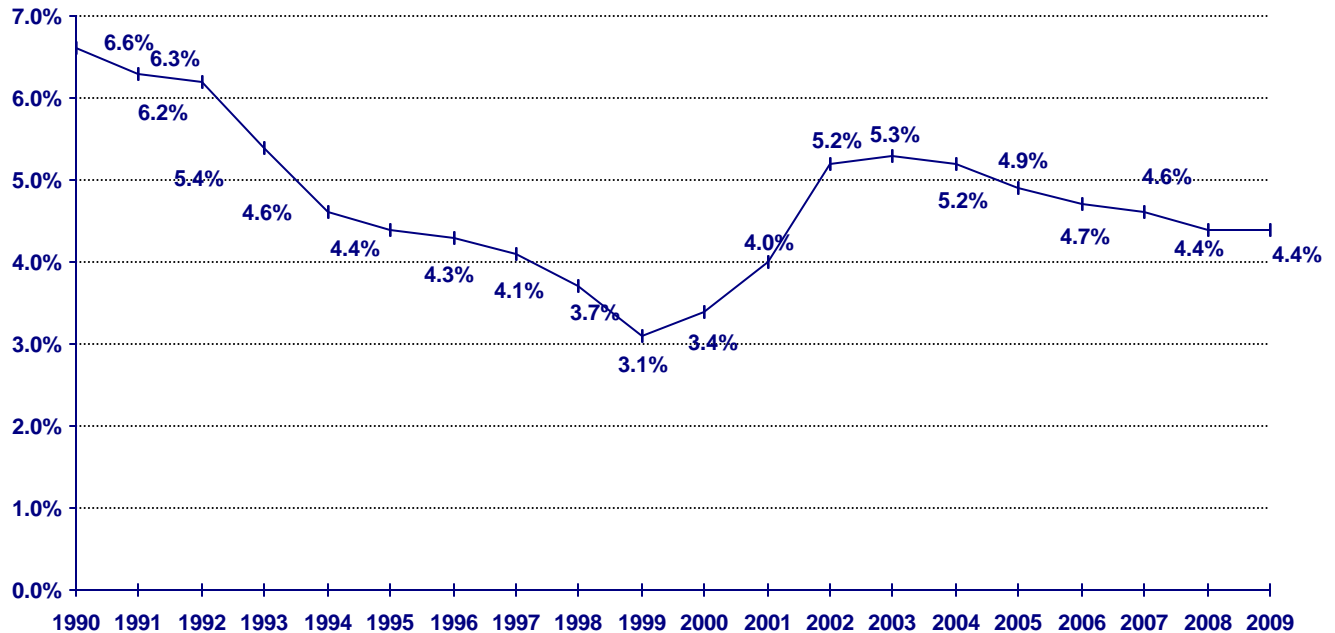
San Antonio MSA Economic Outlook

From 2001 to 2002, local employment increased by only 2,500, or by only 0.34%, reflecting the weakness in both the national and local economies. The 2002 growth rate is also weak when compared to the increase experienced from 2000 to 2001 when local employment increased by 10,000 by a rate of 1.39%. To put it in perspective, the 0.34% growth rate in 2002 was the weakest local employment growth rate since 1987. The decline from 2002 to 2003 can be attributed to lost employment in the following sectors - construction, manufacturing, retail, and insurance carriers. Specific manufacturing closings were the Sony, Lancer and Philips plants while the significant loss in insurance was related to USAA. Since an almost 4% growth rate experienced in 1997, annual rates of employment growth have gradually, but steadily, declined each year since 1997.

For 2004, it is projected that 9,400 new jobs will be added to the local economy (a rate of increase of 1.3%). It is anticipated by Economy.com that employment growth rates will begin to grow, with an increase of 3.9% (29,000 new jobs) and 4.0% (30,800 new jobs), in 2005 and 2006 respectively, anticipated with the initiation of operations at the new Toyota manufacturing facility. Annual rates of increase from 2006 to 2009 are expected to remain at or above 2.6%.

Figure 2 presents MSA unemployment rate projections made by Economy.com.

Figure 2
San Antonio MSA
Unemployment Rate
Actual Through 2003/Pred. 2004 to 2009



Source: Economy.com

Even as local employment has begun to increase its annual rate of growth, overall local unemployment peaked at 5.3% in 2003 largely due to job reductions occurring in technical and financial services industries locally. As the national economy improves and as Toyota and supporting industries come on line, the local unemployment rate is expected to come down and stabilize in each year beyond 2004 through 2009.

With respect to San Antonio's employment picture over the forecast period:

Recent Performance. San Antonio is still one of the strongest large metropolitan areas within Texas. The region saw the largest gains in both its labor force and employment levels relative to the other large metropolitan areas, while holding its unemployment rate steady at 5.2% from March 2003 through February 2004. This was the second lowest unemployment rate of these large regions. San Antonio's economy maintained this stability despite the loss of jobs in the manufacturing sector. These losses were offset by employment growth in the services sector, including the region's largest industry – biotechnology and healthcare.

Assets. Building upon their decision to build an \$800 million manufacturing facility in San Antonio, Toyota Motor Manufacturing announced this year that it would create an unique Supplier Park on their property. This will potentially attract another 1,000 supplier manufacturing jobs and additional investment of approximately \$100 million. Other sectors of the economy are also doing well. While suffering some setbacks last year in the area's semiconductor industry with the announcements of the closing of the Sony and Philips Semiconductor facilities, San Antonio was able to attract a buyer of the Philips plant in Maxim Integrated Products. Maxim invested \$40 million to purchase the facility and will invest another \$38 million in facility improvements, retooling, and equipment. The company will also restore the employment levels that were previous existent at the facility. In the aerospace industry, Standard Aero won a MRO contract with the Navy and is adding 100 jobs, while Gore Design is also adding 350 jobs to fill the demand for their aircraft refurbishment services. The IT and biotechnology industries are also experiencing significant growth. For instance, Rackspace is projected to add 10-15 jobs per month throughout the year and is growing into one of the world's largest managed hosting companies. The biotech industry saw several of its start-ups obtain FDA approval on their products and continue to experience rapid growth over the past year, as they expand their products and continue to develop new products. Through the work of the San Antonio Technology Accelerator Initiative, San Antonio is experiencing an increase in successful technology start-ups, fostered by the increasing interest from angel investors and venture capitalists in the area's new technology firms.

Liabilities. Over the past year, the area saw considerable decreases in their manufacturing sector with the closings of the Sony and Philips plants, as well as the Levi-Strauss facility. Boeing and Lancer Corporation also experienced layoffs of 320 and 120, respectively. Recently, ALCOA announced the closing of its plant in San Antonio resulting in the loss of 175 manufacturing jobs. However, as mentioned above, some of the decline in employment in this sector will be addressed in the future when Toyota, the Toyota suppliers, and Maxim begin their hiring. San Antonio has also seen slight declines in the retail; transportation, warehousing, and utilities; leisure and hospitality; and "other services" sectors. The declines in these sectors appear to have also led, in part, to increased vacancy rates in the office, industrial, and retail property markets.

The declines in these services sectors, although, were offset by increases in the higher wage services sectors, such as information technology, financial activities, and professional and business services. This resulted in an overall increase in employment in the services producing sectors of the economy.

Overall, the San Antonio economy is showing signs of continuous recovery, outpacing national trends. Growth is projected to continue in San Antonio at a modest pace. Stable demographic growth, a favorable location for trade, stable infrastructure and low living and business costs all support steady growth.

B. General Fund Forecast

This chapter provides the forecast of revenues and expenditures for the General Fund. The analysis presented here is intended to bring together key information presented in forthcoming chapters of the Forecast. Specifically, the economic data and projections discussed in the Economic Update & Outlook chapter, are incorporated into the projection strategy of developing revenue and expenditures in the General Fund over the next five years.

• Revenues

Of the sources of revenue that contribute to the General Fund in the current fiscal year, Sales Tax receipts, Property Tax receipts, and City Public Service (CPS) payments combined make up 79.0% of all available re-estimated resources.

- The state of the national economy greatly impacts revenue projections for the sales tax. The national economic slowdown that began in late 2002 has begun to show signs of recovery. Actual sales tax collections for the current year are projected to be at \$147.2 million. This amount is \$4.287 million (or 3%) more than the \$142.9 million budgeted in FY 2004 for sales tax revenue. Accordingly, sales tax revenues in FY 2005 are projected to increase by 3.23%. Beyond FY 2005, as the economy continues to recover, revenue levels from this source are expected to steadily increase over each the following four years by no more than 4.84% annually. Future years' projections are based on a regression analysis utilizing Unemployment, Consumer Price Index and Gross Domestic Product.
- Projected growth in Property Tax revenue is based on anticipated growth in new property value improvements. The projected increase of 1.56% in FY 2005 represents the rate of increase over re-estimated FY 2004 property tax revenues and is based upon preliminary estimates of increased property valuations from the Bexar Appraisal District. For each year thereafter, an annual increase of no higher than 1.58% is projected to account for increased valuations from conservative estimates of new property improvements, with the exception of FY 2008 which reflects a 1.82% increase associated with the Toyota plant coming online.
- The City's payment from CPS is one of the most difficult revenue streams to project due to a number of variables which include weather, price volatility of fuel sources, and the available supply of various fuels. The volatile nature of CPS revenues has never been more evident than in the last three fiscal years.
 - ⇒ In the fall/winter of 2000 (first quarter of FY 2001) the combination of both dramatically higher natural gas prices and protracted cold weather caused CPS payments to the City to increase dramatically. Actual FY 2001 revenues amounted to \$171.6 million (this amount is net of the \$10.8 million City Council rebated to City ratepayers and to Project WARM along with the added electricity costs incurred by City facilities).
 - ⇒ In contrast, in the fall/winter of 2001 (first quarter of FY 2002), fuel prices dropped back to more normal levels and the region experienced a very mild winter. Actual revenues for FY 2002 were \$165.1 million - \$6.5 million lower than the \$171.6 million FY 2001 net actual amount.

⇒ In FY 2003, fuel price issues along with unusually warm spring weather combined to dramatically increase CPS revenues. Specifically, CPS had higher fuel costs than experienced in FY 2002 for two significant reasons. First, CPS' least expensive source of electrical power, the South Texas Nuclear Plant (STNP), had its capacity greatly reduced due to one of its two units being down for repair for four months, until August 2003. Secondly, as a consequence of STNP not operating at full capacity, CPS had to rely on more expensive electrical generation capacity such as power generated by natural gas which was nearly twice as expensive as it had been in the previous year. As a result, the City was able to utilize \$25.9 million in excess CPS revenues to address one-time improvements in the FY 2004 Adopted Budget.

In projecting revenues beyond FY 2004, staff analyzed CPS' projected growth rates and discounted CPS' projected demand and fuel cost assumptions. Natural gas prices are projected to return to lower levels over the forecast period closer to the ten-year average natural gas unit cost. Consequently, staff's projected growth rates as shown above are conservative and prudent in view of the rapidly changing natural gas fuel price environment.

- **Expenditures**

Projections of expenditures required to maintain the current year level of services throughout the forecast period are based largely upon inflation factors derived from the Chapter II forecast for increases in the Consumer Price Index. For Personal Services expenditures, adjustments include significant increases in assessments for health insurance and workers compensation, and a 3% increase in employee salaries in FY 2005 (as a policy issue for Council consideration in the budget process). The FY 2004 current services expenditure re-estimate reflects 100% of the expenditures approved in the FY 2004 Adopted Budget. The expenditure projections in each year beyond FY 2004 reflect adjustments for inflation and self-insurance fund assessments less allowances for significant one-time, non-recurring expenditures.

- **Mandates**

Recurring and one-time mandates for FY 2005 are estimated to total \$16.8 million. Included among the mandates is \$6.2 million and \$5.8 million in added costs attributable to the collective bargaining agreements with the San Antonio Professional Firefighters Association and the San Antonio Police Officers Association respectively. Also included is \$478,023 in added costs to operate and maintain new parklands and parks facilities acquired with resources authorized by the Parks General Obligation Bond issues approved by voters in 1994, 1999 and 2003, and Proposition 3 passed in 2000.

- **Policy Issues**

The following section provides a view of emerging issues that are likely to have direct fiscal impacts to the City over the Forecast period. Many of these issues cross departmental lines and may cross jurisdictional boundaries to involve a variety of governmental and private sector entities. Because they are emerging issues, the fiscal impact of each issue may not be precisely quantifiable at this time. Each issue, however, has sufficient long-term impact potential to merit inclusion in the Five-Year Financial Forecast.

Model Governance

In February, 2004, the City Council approved the following four propositions to go before the voters in a special charter election on May 15, 2004:

-Proposition 1: Lengthen the term of office from two years to three years and the term limit from two consecutive terms to three consecutive terms

-Proposition 2 Increase compensation for members of the City Council to an annual salary equal to 75% of the San Antonio median family income and to an annual salary for the Mayor equal to 100% (determined and published by the U.S. Census Bureau), and authorize members of the City Council to participate in health insurance programs available to City employees

-Proposition 3 Establish an Ethics Review Board with independent jurisdiction to enforce and sanction violations of ordinances relating to ethics, lobbying, and campaign finance

-Proposition 4: Permit an individual member of the City Council to hire staff who serve at the will of the Council member and are subject to the prohibitions, obligations, and benefits established for City employees

If successful, Propositions 2, 3 and 4 may have a fiscal impact beginning in FY 2005.

Future Base Closures/Military Initiatives

The City, in partnership with Bexar County, the Greater San Antonio Chamber of Commerce and community leaders, established the San Antonio Military Mission (SAMM) Task Force. The SAMM Task Force is focused on promoting the military value of our local military installations and missions, and identifying ways the community can help the military increase operating efficiency of its installations. The SAMM is also coordinating its efforts with the Texas Military Preparedness Commission, which is the state's focal point for BRAC 2005 activities.

Fire and Police Collective Bargaining

The contract between the City of San Antonio and the Professional Firefighters Association will expire on September 30, 2005. Implementation of the final year of the contract will cost the City \$6.3 million in FY 2005. The contract between the City of San Antonio and the San Antonio Police Officers Association will expire on September 30, 2006. Projections indicate that this agreement will cost the City an added \$5.8 million in FY 2005 and an additional \$9.6 million in FY 2006.

The City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust and is governed by a nine member Board of Trustees which is responsible for the investment of the assets of the Fund.

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. The Board of Trustees had an actuarial valuation performed as of July 1, 2000 and the results of that study indicated that based on employer contributions of 9.4% of covered payroll (base pay plus longevity) plus the employee monthly contributions of \$20, the unfunded liability of the Fund could be amortized over a 25 year period. Subsequently, the Board of Trustees engaged another actuarial firm to perform an actuarial valuation of the Fund as of October 1, 2001 and subsequent actuarial valuations of the Fund as of October 1, 2002 and October 1, 2003. The results of the reports indicated that the employer and employee contributions mentioned previously were not sufficient to amortize the unfunded liability and recommended significant funding increases. The recommended funding increases shown in these three studies are primarily attributable to the actuarial assumptions for current benefit health claims costs and future increases in health benefit claims costs. While the results of these studies reflect significant increases in contribution levels, the reports also state that the Fund does not have a short-term financing problem. The City in coordination with the Fire and Police Associations have begun to establish the framework in which a long-term solution to the actuarial soundness of the Fund can be developed and implemented.

The City's current agreement with the San Antonio Police Officer's Association increases both contributions by the City and active police officers over the term of the agreement. The agreement also makes certain changes in benefits such as expanding the list of preventive services and for in-network and out-of-network pharmacy benefits with increased co-payments for drugs purchased at out-of-network pharmacies. To coincide with the expiration of the City's current agreement with the Fire Association, the agreement with the Police Officer's Association also includes a re-opener on the benefits article in fiscal year 2005. Importantly, this allows the City to simultaneously work with both the Fire and Police Associations to continue to develop and implement a comprehensive long-term solution for the Fund.

The City's current agreement with the Fire Association includes a limited re-opener related to contributions to the Fund. The City anticipates exercising this limited re-opener for the purpose of discussing contributions to the Fund and completing this process by the Summer of 2004. In addition, the City, in conjunction with both the Fire and Police associations, is conducting an independent review and valuation of the fund. The jointly selected firm is reviewing the actuarial assumptions and will conduct modeling of various scenarios and their affect on the financial soundness of the fund.

It is also important to note that the Retiree Health Care Fund Board of Trustees has expressed a desire to proceed with a legislative change which would remove contributions from collective bargaining and establish a contribution schedule under state statute. The City will participate and closely monitor this legislative process as well as determine its financial implications on the City, its uniformed employees, and its current collective bargaining agreements with the Associations, respectively. Upon review of the final proposed legislation, the City will determine whether it can support such a legislative change.

Balanced Growth

The City is dedicated to implementing balanced growth initiatives in order to manage growth in a way that minimizes damage to the environment, reduces sprawl, and builds a livable city. Components of the balanced growth initiative are comprised of the Southside Initiative, Annexation, and the development of the Defense Adjustment Management Authority (DAMA).

Southside Initiative

The primary goal of the Initiative is to reverse the trend of disinvestments in the southern sector and to encourage the balanced growth of San Antonio. The Initiative seeks to achieve the goals and objectives of the 1997 San Antonio Master Plan Policies, the 2001 San Antonio Housing Master Plan, and the Community Revitalization Action Group (1998, 2000) by utilizing smart growth principles. A secondary goal is to build upon the important investments and unique assets which already exist in South San Antonio.

City Council adopted the Southside Initiative Community Plan on June 26, 2003 as a component of the City's Master Plan. The plan contains land use categories to address the key land use objectives including creating development nodes, creating strong neighborhood development, creating greenspace corridors along major waterways and roads, and preserving rural communities. A land use plan was adopted by City Council as a component of the Southside Initiative Community Plan. Five new flex zoning districts were adopted by City Council on August 28, 2003 to implement the future land use categories of the Southside Initiative Community Plan. The five new zoning districts promoted smart growth development strategies in order to provide a mixture of commercial and residential land uses and housing types, promote pedestrian and transit friendly environments, encourage rural living characteristics, and preserve the rural and agricultural character of the southside. Following the adoption of the new flex zoning districts, the City began the process of rezoning the southside area, providing consistency between the adopted land use plan and the current zoning.

Annexation

The City of San Antonio adopted a Three Year Annexation Plan in December 2002. The areas proposed for annexation for full-purposes include 8,583 acres or 13.41 square miles. These areas are located on the north and northwest side of San Antonio. The areas proposed for annexation for limited purposes include 36,458 acres or 56.96 square miles. The limited purpose annexation areas are located south of Loop 410. Beginning in May and June 2004, the city will be holding community meetings to describe to residents which services will be provided upon annexation. Services required to be provided upon annexation include police and fire protection, emergency medical service, solid waste collection, operation and maintenance of water and wastewater facilities in the annexed area that are not within the service area of another utility, as well as operation and maintenance of roads and streets, including road and street lighting. Following the community meetings, negotiation of services to be provided, or service plans, with the areas proposed for annexation will take place. During this time, the city will determine the fiscal impacts of the negotiated service plans. Areas proposed for annexation for full purposes are expected to be annexed in December 2005 with the negotiated service plans. Areas proposed for annexation for limited purposes are expected to be annexed

January 5, 2006. The fiscal impact of both the full purpose and the limited purpose annexations will be realized beginning in FY 2006.

Defense Adjustment Management Authority (DAMA)

In order to foster economic opportunity, job generation, and capital investments, the Legislature passed the Defense Adjustment Management Authority (DAMA). This legislation will be utilized to promote a favorable business climate and prepare the workforce for productive employment in the Southside Initiative area. The goals of the DAMA include enhancing education through the creation of regional development agreements that will enable the authority to fund improvements to school facilities, develop programs such as job training and literacy programs; promote economic development through innovative financing mechanisms in order to carry out projects such as transportation and utility infrastructure; and control land uses through zoning powers to provide for orderly growth and development. City Council set aside \$300,000 of one time resources during the adoption of the FY 2004 Budget, to initiate the Public Improvement Master Planning process by developing a Public Improvement Plan for transportation and utility infrastructure and parks and open space needs.

City/County Consolidation

It continues to be a priority of the City to work cooperatively with other governments and political subdivisions in the community in an attempt to provide taxpayers the most efficient and effective government possible. In 2002, the City and County agreed upon a City-County Cooperation Plan expressing a joint commitment to create a more seamless and integrated structure of local government. Further, a Commission on City/County Service Integration was appointed in September, 2003 to research ways to combine City and County services. The Commission was charged to: review best practices and models from other communities; develop and implement community education programs on the desirability of functional consolidation; recommend a plan to transfer and consolidate functions/services between county and city governments that is equitable to both city and county taxpayers and creates more efficiency, effectiveness and accountability; and develop a draft of the necessary state legislation. The completed report was presented to the City Council on May 6, 2004. Staff will be working with the County to review implementation and cost issues. This analysis should be completed by August, 2004.

Proposition 13

An Amendment to the Texas Constitution was passed by the voters in September, 2003 giving the City the authority to permanently freeze the City property tax levy paid on a homestead residence once the homeowner is disabled or has qualified for a senior exemption. The City currently provides a \$65,000 property tax exemption to homeowners 65 years of age or older. Approximately 68,400 homeowners will use the exemption in FY 2004. Of those who utilize the exemption, 36,963, or 54.0%, pay no City property tax. While the City does not currently provide a property tax exemption for disabled persons, an exemption is available to disabled veterans. The two methods of adoption of Proposition 13 are by vote of the City Council or by vote of the general public. Should the exemptions be provided, beginning in FY 2005, it is estimated that the City would lose a total of \$36.7 million in lost property tax revenue over the next ten years.

Governor's Public School Finance Proposal

On May 5, 2004, the Texas House of Representatives passed HB 1 by a vote of 73-70. HB 1, if enacted, provides a new public school funding plan that will add more state money for Texas schools while also providing property tax relief for property owners. By the time the final vote was taken, the Texas House had voted down two controversial revenue options – a proposed payroll tax and the legalization of video gaming machines. Removal of these two items significantly reduced the bill by more than \$4.5 billion from the proposed \$6.2 billion that was supposed to fund increases in school funding as well as to pay for property tax reductions.

The revised bill confines its revenue generation by increasing the state sales tax from its current rate of 6.25% to 7%. It also expands the sales tax base to include billboard advertising, newspaper and magazine subscriptions, Internet access services, bottled water and mixed drinks. The bill also increases the tobacco tax by \$1 per pack.

The House plan does provide for some reduction in property taxes. However, the reduction is more modest than first proposed. The current property tax rate is limited to a maximum of \$1.50/\$100 valuation. Specifically, the new bill provides for property tax relief at a rate of \$1.20/\$100 valuation instead of the original proposal of \$1.05/\$100 valuation.

Of interest to cities are the following provisions: 1) appraisal caps of 5% would be imposed on qualified residential property, 2) there will be no revenue caps or voter approval of rate increases, 3) no changes to the calculation of effective tax rates or rollback rates, 4) local share of expanded sales tax would go to public education, and 5) a new \$1 admissions tax would be imposed on each ticket to professional or athletic events, or live performances.

Air Quality

The Environmental Protection Agency is developing rules to establish requirements for the acquisition of Alternative Fuel Vehicles by municipalities. The current definition of alternative fuels does not include gasoline or electric hybrid vehicles. However, there is a possibility of their inclusion in an attempt to meet the reduced fuel usage requirement of the EPA Act of 1992. The City currently owns 14 gas/electric hybrid cars. In addition, the state mandated in the last legislative session the use of Texas Low-Emission Diesel beginning April 2005. These new requirements will result in higher fleet acquisition costs to the City. The City is also working with other local public agencies to determine the feasibility of other alternative fuels.

SAWS Market Street Facility

San Antonio Water Systems (SAWS) is currently in the process of acquiring a facility to consolidate staff that are located in multiple facilities. This will involve vacating the current SAWS headquarters on Market Street north of the convention center. Because the Market Street property will be needed when the convention center is expanded in the future, it is in the City's best interest to control the property. As such, it is proposed that the City enter into a lease/purchase or purchase agreement for the property with SAWS during the upcoming fiscal year.

Employee Benefits

The key policy issue for employee benefits is to determine the appropriate health benefit structure and at what level the City will continue to fund health benefits for its employees, retirees and their respective dependents. Rising medical and prescription costs have forced many private and public employers to address this policy issue by making significant plan changes and/or increasing participant premiums. Currently, the City funds 85% of the monthly HMO cost to provide medical benefits to employees and their families and between 97% to 99% of the monthly cost to provide CitiMed benefits. In January 2004, employees began paying a \$5 (single) or \$15 (family) per month premium. To continue the current funding ratio for both the City and its employees, this forecast assumes the General Fund will contribute an additional \$14.4 million next year to the Employee Benefits Fund.

The assumption that the General Fund will contribute an additional \$14.4 million also assumes no change in the current employer/employee funding ratio or change in the benefit structure. Any change in the employer/employee funding ratio would have a direct impact on the General Fund, as well as the other funds. For example, assuming a 90% City and 10% employee funding ratio with *no changes* to the City's benefit plan would result in the General Fund contributing \$12.15 million, or \$2.25 million less than what is included in the forecast. Under this scenario, employees would be asked to contribute \$59 per month and the City would pay \$557 per month.

Over the next several months, the Human Resources Department will evaluate responses to the Combined Health and Benefits Request for Proposals (RFP). These proposals may provide an opportunity to restructure the City's benefit plan and take advantage of possible network changes and significant increases in pricing discounts. One goal of this review process is to minimize the impact of any changes on the employees while offering a greater degree of choice to them and their dependents.

The City will formulate a strategy to establish a funding ratio plan to address the long term financial needs of the City's benefits program. The formulation of this funding plan will also take into account any changes made in the benefit plan or design. Additionally, this strategy will include possible changes to benefits provided to the Police and Fire uniform employees and their dependents beginning in January 2006. The current Collective Bargaining Agreement with the San Antonio Professional Firefighters Association will expire on September 30, 2005. It is anticipated that negotiations with Local 624 will begin in the Spring or Summer of 2005. The current Collective Bargaining Agreement with the San Antonio Police Officers' Association includes a re-opener clause to discuss health benefits in conjunction with Local 624's negotiations.

Civilian Employee Compensation

The 2004 City Council Goals & Objectives Worksession identified employee classification, pay and health insurance as high priority. The FY 2004 Adopted Budget included a recurring market salary adjustment of 3% for all eligible civilian employees. The continuing challenge for the City is to ensure salaries and benefits are competitive with the local market in order to attract and retain employees. Thus, the Forecast includes an additional 3% recurring market salary adjustment in FY 2005 as a policy issue for City Council consideration.

- **Analysis**

Table 2 provides a comparison of total available revenues (current revenues plus unrestricted fund balance) with total projected expenditures (current services budget plus mandates).

Table 2
General Fund Forecast
(In Thousands)

	FY 2004 Rev Adopted	FY 2004 Re-Est	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Beginning Balance*	\$30,408	\$41,484	\$20,384	\$0	\$0	\$768	\$5,416
Adjustment for Reserves	369	0	0	0	0	0	0
Current Revenue	608,929	618,541	626,395	642,388	657,803	674,143	690,473
Total Avail. Resources	639,706	660,025	646,779	642,388	657,803	674,911	695,889
Current Svcs. Exp.	639,641	639,641	630,633	635,256	640,206	645,152	650,412
Added Emp. Health & Workers' Comp. Cost	0	0	16,661	24,346	31,569	37,609	44,258
New Exp. Base	639,641	639,641	647,294	679,681	703,704	716,859	730,462
Civilian Compensation Policy Issues	0	0	4,038	0	0	0	0
New Recurring Mandates	0	0	16,041	11,850	2,169	1,694	1,500
New One-Time Mandates	0	0	755	44	349	129	29
Total Expenditures	639,641	639,641	668,128	691,575	706,222	718,682	731,991
Prior Years Adjust.	0	0	0	(21,349)	(49,187)	(49,187)	(49,187)
New Adjustment Rq'd	0	0	(21,349)	(27,838)	0	0	0
Ending Balance *	\$65	\$20,384	\$0	\$0	\$768	\$5,416	\$13,085
Reserve for Revenue Loss	\$23,168	\$23,168	\$23,168	\$23,168	\$23,168	\$23,168	\$23,168

*Does not include Reserve for Revenue Loss

Table 2 shows a **projected FY 2005 shortfall** of total available resources to total expenditures **requiring an adjustment of \$21.349 million**. FY 2006 reflects a shortfall of \$27.8 million. Once the shortfalls from FY 2005 and FY 2006 are addressed, no shortfalls are projected beyond FY 2006

There are multiple factors contributing to the extent of the projected shortfalls.

- To keep up with rising costs of workers compensation claims and to maintain the current level of health insurance benefits for City employees in FY 2005, it will be necessary to increase workers compensation self-insurance assessments by 15% and employee health insurance program assessments by 38% in all departmental budgets. The large assessment increase in employee health benefits is due to the fact that the assessment increase in FY 2004 was achieved with one-time funds. The combined added costs of the increased assessments will be **\$16.7 million** for General Fund departments.
- Consistent with the objective to provide an enhanced compensation package to employees, the FY 2004 Adopted budget included a 3% salary increase for all civilian employees. A 3% increase in civilian compensation is estimated at an additional **\$4.04 million** in FY 2005.

- Recurring and one-time mandates are estimated to total **\$16.7 million and \$11.9 million** in FY 2005 and FY 2006 respectively. Included among the mandates is added costs attributable to the collective bargaining agreements with the San Antonio Professional Firefighters Association and the San Antonio Police Officers Association. Also included is added costs to operate and maintain new parklands and parks facilities acquired with resources authorized by the Parks General Obligation Bond issues approved by voters in 1994, 1999 and 2003 and Proposition 3 passed in 2000.

The added expenditures described above will reduce the funds available for next year and require prioritization of services by the City during the upcoming FY 2005 Budget process.

Options for addressing the FY 2005 shortfall include a reduction in services guided by the City Council's priorities, an increase in the property tax rate, increases in other various fees and charges or not including the policy issues outlined above pertaining to employee compensation and employee benefits.

Any proposed service reductions will need to be examined in the context of the Budget Priorities to be established by the City Council as part of the upcoming Council Goals & Objectives Worksession process. If service reductions are to be included in the FY 2005 Proposed Budget, those that will be recommended will be judged to have the least adverse impact to the City Council's Budget Priorities.

C. Other Funds Forecast

Five year projections are also made for the Community & Visitor Facilities Special Revenue Fund, the Golf Special Revenue Fund, the Storm Water Special Revenue Fund, the Aviation Enterprise Fund, the Environmental Services Enterprise Fund, the Parking Enterprise Fund, the Employee Benefits Self-Insurance Fund, and the Workers Compensation Self-Insurance Fund. The projections for these funds assume the economic conditions forecast in Chapter II, Economic Perspective & Outlook. Inflation rates and rates of increase for self-insurance fund assessments used for expenditure projections are the same as used for the General Fund.

- **Community & Visitor Facilities Fund**

The Community and Visitor Facilities Fund was established in FY 2004 to account for revenues and expenditures generated from all convention and tourism related activities and to increase efficiency by combining resources from the Alamodome, Convention Center, Municipal Auditorium, and Nelson W. Wolff Stadium into one fund. This special revenue fund includes the Alamodome, Nelson W. Wolff Stadium, Convention Facilities, Convention and Visitors Bureau, Cultural Affairs Office, and the protocol unit of the International Affairs Department. The fund also contributes a portion of the Hotel/Motel Tax revenues, through a transfer to the General Fund, in order to support various visitor related activities such as maintenance of the Riverwalk, Hemisfair Park, and La Villita.

The primary revenue source of the Community & Visitor Facilities Special Revenue Fund is the Hotel/Motel Occupancy Tax. The current rate of 16.75% levied on every hotel and motel room night charge within the City limits is broken out at 1.75% for the County Arena, 7% for the City,

6% for the State, and the remaining 2% is a dedicated source of revenue to pay debt service for the Convention Center Expansion Project.

Estimates for the FY 2004 Hotel/Motel Occupancy Tax revenues amount to the FY 2004 budget of \$35.96 million. Beyond FY 2004, visitor activity is expected to return to more normal levels along with Hotel/Motel Occupancy Tax revenues. Specifically, Hotel/Motel Occupancy Tax revenues are projected to increase at annual rates of 5.38% (FY 2005), 5.10% (FY 2006), 4.28% (FY 2007), 1.77% (FY 2008) and 1.24% (FY 2009) during each of the forecast period years, respectively. Revenue projections are based on both a regression analysis and events that are known or confirmed. It is important to note that the projections do not factor in the additional hotel rooms projected to come from construction of a new Convention Center Headquarters Hotel since financing for the new facility has not yet been finalized.

The dedicated 2% Occupancy Tax collection of revenues for the Convention Center Expansion is recorded within a separate fund and is not reflected in the revenue projections.

The primary sources of revenue for the Convention Center are facility rentals, catering commissions, reimbursable expenses, and various event-related fees. Revenues for the Convention Center are based on projections made by the Convention Facilities staff for each of the years in the forecast period.

The primary sources of revenue for the Alamodome and Nelson W. Wolff Stadium are facility rentals, food and beverage concessions, parking fees, reimbursable expenses, and various event-related fees. Revenues for both facilities are based on event mix projections made by the Alamodome staff for each of the years in the forecast period.

Policy issues impacting the Community & Visitor Facilities Fund are outlined below:

Alamodome

Shortly before the 2004 NCAA Final Four basketball championship in April 2004, the Alamodome undertook an ambitious renovation project to improve the north and south entrances, the Club level, the Sports Club and Top of the Dome, and the restrooms and concession stands on the Plaza level. Funding for the renovations was identified from residual certificate of obligation funds from City projects.

In addition, with additional funding, the Alamodome is currently in the process of procuring new turf and video systems. Under the new turf agreement the Alamodome will be able to take advantage of state-of-the-art advances in the turf industry by upgrading the turf every four years. The current Jumbotron screens were purchased for the old Convention Center Arena and the video walls were installed when the Alamodome opened in 1994. All of the current screens are outdated and are increasingly inefficient to maintain and repair. The four screens on the Sony Jumbotron and the two large video walls will be replaced with new, state-of-the-art screens that provide patrons with better quality images. Funds for these projects have been identified through State sales tax dollars generated as a result of the Final Four held in the Alamodome in April 2004.

Soccer

The Alamodome will be hosting the City of San Antonio's first official international soccer match on June 19, 2004 when the Mexican National Team plays Dominica in a World Cup qualifying match. The game is expected to draw fans from throughout the region and northern Mexico. Soccer is becoming one of the main focuses of event development for the Alamodome. Alamodome and other City officials are also working closely with Major League Soccer officials to entice the league in establishing a franchise for the City to play at the Alamodome.

Convention/Tourist Industry Recovery

With an impact of \$7.2 billion to the local economy, the visitor industry ranks as San Antonio's second largest industry employing more than 86,000 people with an annual payroll of \$1.37 billion. In 2003, more than 425,000 convention delegates booked by the Convention and Visitors Bureau brought an estimated \$383.5 million in direct expenditures into our local economy and stayed an estimated 710,000 nights in San Antonio hotels. This year has seen growth in both the economy and in consumer confidence and has translated into a strong tourism year for San Antonio. San Antonio is fortunate to have been able to mitigate the increasing competition in convention and business travel with a strong showing in leisure travel. This is due in large part to aggressive advertising and marketing campaign from the San Antonio Convention and Visitors Bureau as well as developing strong partnerships with local hotels and attractions.

Convention Center Headquarters Hotel

The City continues to anticipate the development of a 1,000 to 1,200-room convention center hotel adjacent to the Henry B. Gonzalez Convention Center. It is anticipated that some municipal support or provision of development financing will be required to expedite the successful funding and completion of the project. Following developer selection and completion of negotiations, project construction should last approximately 30 months. Assuming successful efforts, hotel opening is not expected prior to December 2007. Significant project-related revenues should not be anticipated prior to FY 2008 and are not included in the revenue projections over the forecast period.

Shortfalls are projected to occur beginning in FY 2005 with a \$2.6 million projected shortfall and continuing throughout the forecast period, with exception of FY 2007.

- **Golf Fund**

The Golf Special Revenue Fund is designated to monitor and record all revenues and expenditures associated with the operation and maintenance of six 18-hole golf courses, two par-3 9-hole golf courses, and four golf practice ranges. The primary source of revenue for this fund come from various user fees charged at the golf facilities operated by the City. Specifically, revenues include greens fees, golf cart rentals, pitch and putt course fees, driving range ball rentals and concessions.

The primary source of revenue for this fund comes from various user fees charged at the various golf facilities operated by the City. Specifically, revenues include greens fees, golf cart rentals, pitch and putt course fees, driving range ball rentals and concessions. The forecast assumes re-estimated revenues for FY 2004 as the starting point.

A Policy Issue impacting the Golf Fund is outlined below:

National Golf Foundation Study

The City of San Antonio recently contracted the National Golf Foundation (NGF) as a consultant to complete a study of the City's golf operations. The purpose of the golf study was to identify activities within the City's golf structure that had both positive and negative impacts to the golf operation's bottom line. This study was presented to City Council in April, 2004. Positive findings of the study included a good management structure or chain of command within the golf organization and trends of steady population and economic growth for the City (population and economic growth should have a positive impact on the San Antonio golf market). There was also an overall satisfaction of City golf courses as indicated by initial results to a customer feedback survey. Cited as opportunities for improvement were, the uniform fee structure, marketing of courses, and discounting options. The golf study identified many positive processes currently in place within the City's golf structure. However, the golf study also raised many policy issues that will need to be addressed by the Parks and Recreation Department, with the direction of City Council, over the course of FY 2005.

A shortfall of \$1.1 million is projected for the end of the current fiscal year. A \$1.3 million shortfall is expected at the end of FY 2005 if revenues and/or expenditures are not adjusted. The fund will continue to be closely examined to assess the extent of required adjustments to keep the fund in balance.

- **Storm Water Fund**

The Storm Water Special Revenue Fund is designated to monitor and record all revenues and expenses associated with the operation and maintenance of all City storm water activities. Revenue is generated from a storm water fee that supports City activities responsible for storm water pollution prevention and drainage improvements.

The primary source of revenue for the Storm Water Fund is the Storm Water Fee, which is assessed to all property platted within City that receive water service or sanitary sewer service. Revenues are based on a conservative estimate reflecting 2% annual rate of growth during each year of the forecast period. The forecast assumes re-estimated revenues for FY 2004 as the starting point.

Policy issues impacting the Storm Water Fund are outlined below:

SAWS Contracted Services

The City of San Antonio contracts with San Antonio Water System (SAWS) for some operational components of the Texas Pollutant Discharge Elimination System (TPDES) permit as well as the billing and collecting of the Storm Water Fee. SAWS 2005 proposed budget indicates a significant increase from the current 2004 budget. City staff has reviewed the proposal and will be meeting with SAWS representatives in the next few weeks to address the proposed increases submitted by SAWS.

Regional Flood Control and Water Quality Management Program

An Interlocal Agreement, to implement a Regional Flood Control and Water Quality Management Program (Program), continues to be maintained between the City, Bexar County, and the San Antonio River Authority (SARA). The goal of the agreement is to produce consistent and equitable flood control, an improved drainage program, improved water quality. This goal increases the protection of life and property and provides safe transportation during heavy rains and flood events.

Funding the proposed Program is currently being considered. Various scenarios of increases, decreases, or restructuring have been run utilizing the Storm Water Utility Fee, the Regional Storm Water Participation Fee, Flood Control Tax, and SARA's Ad Valorem Tax, as possible sources of funding for the necessary capital needed for improvements over the next twenty years.

Natural Creekway Maintenance

The Natural Creekway Maintenance improvement, scheduled to come online in the summer of FY 2004, is intended to streamline the collection and removal of floatable debris, dead trees, and excessive vegetation from the City's natural creekways. The improvement added 14 additional personnel and associated equipment to the Public Works Storm Water Division's inventory. The additional personnel will allow for the annual clearing of debris for 745 acres, or 41 miles, of undeveloped creekway versus the current service level of 238 acres or 13.1 miles.

The forecast assumes no adjustment in the Storm Water Fee during the next five years. The Storm Water Fund is projected to maintain a stable financial condition during the forecast period through FY 2009.

- **Aviation Fund**

This fund supports the operations and maintenance of the San Antonio International and Stinson Field airport facilities. The primary sources of revenue for this fund are compiled from various user fees at the San Antonio International Airport. The primary sources of revenue for this fund are compiled from various user fees at the San Antonio International Airport. Consistent and steady growth in revenue collection is projected due to an anticipated increase in air travel and tourism. Average anticipated annual revenue growth over the forecasted period is 4.0 %. The forecast assumes a re-estimate of revenues for FY 2004 as the starting point.

A Policy Issue impacting the Aviation Fund is outlined below:

Airport Terminal Renovations

A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. Included in the terminal renovations was complete redevelopment of the concessions program that provided high-quality retail and food establishments, offering a mix of regional and national brands at street prices. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. The new concessions program is also projected to increase revenues in the Airport from \$3.2 million in fiscal year 2002 up to \$4.8 million in fiscal year 2009. In 2004, the San Antonio International Airport received two awards related to its improved concessions - the "Best Retail/Specialty Program" Award from the Airports Council International, which honors airports that provide superior concessions to meet the needs of the traveling public and "Best Overall Concession Program" from the Airport Revenue News.

Overall, the Forecast shows that the Aviation Fund is in solid financial condition and should require no budget adjustments over the forecast period.

• **Environmental Services Fund**

The Environmental Services Enterprise Fund is designated to monitor and record all revenues and expenses associated with the operation and maintenance of the City's Solid Waste programs. Revenues collected fund Solid Waste functions including refuse collection, brush collection, recycling programs, collection of hazardous household materials and Environmental programs.

The primary source of revenue for the Environmental Services Fund is the Solid Waste Fee, which is assessed to each residential household in the City, whether serviced by the City or a contracted company. Starting in FY 2002, revenues were also generated from the Brush Collection Fee, which is assessed to each residential household in the City for the collection of brush and bulky items. Revenues are based on an estimate reflecting a 1.50% average annual rate of growth beginning in FY 2005 and continuing through each year of the forecast period. The forecast assumes re-estimated revenues for FY 2004 as the starting point.

A policy issue impacting this fund is outlined below:

Automated Collection Pilot Program

In FY 2004, the Environmental Services Department will implement an Automated Collection Pilot Program. The Pilot Program will take place over a six-month period beginning in June 2004 and ending November 2004. The Department will conduct beginning and ending customer surveys as well as identify issues and challenges with the Pilot Program. The final report and recommendation will be presented to the City Council. With the success of the Pilot Program, the Environmental Services Department can begin to plan for the automation of the City's trash service, which will provide greater efficiency and effectiveness.

No increases in solid waste fees are assumed in the five-year forecast. A shortfall is projected in FY 2005 and continues throughout the forecast period if revenues and/or expenditures are not adjusted. In the short-term, without a rate increase, the shortfall may be managed through a reduction in expenditures, though a long-term solution may be full automation of waste collection.

- **Parking Fund**

The Parking Fund is an enterprise fund where fees are established to ensure that revenues are adequate to meet all necessary expenses associated with the operation, maintenance and debt requirements of the City's parking structures and parking areas.

Revenue for the Parking Fund are generated primarily from parking fees established for vehicular parking at all City-owned surface lots, garages, and meters. The forecast assumes a re-estimate of revenues for FY 2004 as the starting point. Consistent with Covenants associated with the Parking System Revenue Bonds, aggregate parking garage fees are projected to increase by 11% in FY 2007 and parking lot fees by 11% in FY 2009, in connection with targeted parking fee increases. In addition, parking meter fees are projected to increase by 6.89% in FY 2007 and by 5.61% in FY 2009.

Policy Issues impacting the Parking Fund are outlined below:

Downtown Parking Study

Findings and recommendations from the Downtown Parking Demand Study were presented to City Council in March, 2004. These findings indicate foreseen parking needs in the West Central Business District and the HemisFair (East Central Business District) areas. City Council directed Staff to identify additional resources to expand the scope of the current study and add a traffic model component similar to the one developed for the Medical Center Area.

UTSA/Cattleman's Square

The City has agreed to exchange their Cattleman's Square Lot property for land at HemisFair Plaza, which the University of Texas at San Antonio (UTSA) owns and where the Institute of Texan Cultures resides. The exchange was requested by UTSA to accommodate future expansion of the downtown campus. The Public Works Department currently operates the Cattleman's Square property as a parking lot, generating revenues of approximately \$55,000 per year. It is anticipated that, through the use of 285 parking spaces located on the Institute of Texan Cultures property, similar revenues can be generated.

It is projected that the Parking Fund will maintain a stable financial condition throughout the Forecast period.

- **Employee Benefits Fund**

The Employee Benefits Fund supports the Employee Benefits Program that provides health insurance for each employee and his or her dependents at a low monthly premium of \$5 for single employees and \$15 for employees with dependents, if the employee selects the standard CitiMed program. Employees, if they wish, may supplement the City's contribution to receive coverage under a Health Maintenance Organization (HMO).

Continued maintenance of the current level of health benefit coverage in an environment of dramatically increasing medical costs presents the most significant challenge to the Employee Benefits Fund. The reasons for the increased medical benefits costs include:

- Increase in the cost of prescriptions of 23.93% from FY 2001 to FY 2002 and 15.49% from FY 2002 to FY 2003
- Increase in the cost of medical claims from 16.56% from FY 2001 to FY 2002 and a decrease of -4.22% from FY 2002 to FY 2003 as a result of civilian plan benefit changes and lower incidence of large case claims in 2003
- National authorities project medical costs to increase by 10% to 15% in FY 2005 with prescription costs increasing at a rate of 10% to 18%

The primary source of revenue for this fund is from assessments made against departmental budgets in all City funds based on the number of employees. Significant adjustments to the departmental assessments in all funds are forecasted over the next five years to sustain the current level of employee health insurance benefits.

To sustain the current level of employee health benefits, the Forecast assumes that departmental assessments (in all City funds) will have to increase in each year of the forecast period to bring the Employee Benefits Fund to a positive fund balance by FY 2009.

A Combined Health and Benefits Request for Proposal (RFP) was released in March of 2004 to evaluate alternative plan options to further contain cost for CitiMed and HMO plans. The RFP incorporated a "module" format to provide firms with the flexibility to submit proposals to provide all services being sought or to propose on any combination of modules. The modules and services are listed below:

- Module A – Third Party Administration for medical, dental, healthcare and dependent care reimbursement claims, and to administer COBRA.
- Module B – Utilization Review and Large Case Management Programs
- Module C – Preferred and Exclusive Provider Network
- Module D – Fully Insured Health Maintenance Organization
- Module E – Pre-Employment and Transportation Worker Drug Testing
- Module F – Employee Assistance Program
- Module G – Request for Information (RFI) on a Prescription Drug Benefit Management Program

The RFP was drafted so as to encourage recommendations and alternative plans that firms felt would be in the best interests of the City and its employees.

The RFP closed on April 21, 2004, and the City received twenty-nine (29) responses. A technical team, which includes the outside consultant for this project, convened April 21, 2004 to begin the preliminary evaluations of the responses received. A cost benefit analysis (comparison matrix) of bundled service proposals versus unbundled service proposals regarding the most advantageous service delivery method will be presented to the Management Team in May.

- **Workers Compensation Fund**

The Workers' Compensation Fund is designated to monitor and record all revenues and expenditures associated with the operations of the City's Workers' Compensation Program. The Workers' Compensation Program ensures that the City is in compliance with applicable federal, state and local statutes and regulations dealing with employee injuries or illness in the course and scope of employment.

The primary source of revenues for this fund comes from assessment made against departmental budgets in all City funds based on number of authorized positions and claims history. Continued maintenance of the current level of coverage for the Workers' Compensation program will be a challenge throughout the forecast period because of the same types of increases in medical expenses that have been noted for the Employee Benefits Fund. Significant adjustments to the departmental assessments in all funds for Workers' Compensation Program will be needed to maintain adequate coverage.

Slightly higher-than-anticipated claims expenses in FY 2003 reduced the fund balance from a shortfall of \$4.3 million projected at the beginning of FY 2004 to an actual shortfall of \$4.7 million. This reduction in the beginning available fund balance contributes directly to the shortfall projected for this fund in FY 2005. In FY 2004 to-date, the number of claims is up by 2.5% as compared to the same time frame in FY 2003, however the cost per claim has decreased by 6.1% when compared to the same time frame in FY 2003.

The Forecast assumes that departmental assessments (in all City funds) will have to increase in each year of the forecast period to eliminate the shortfall by FY 2008.

D. Executive Summary Conclusion

The projections provided in this Forecast are based upon a set of assumptions. Projected shortfalls will only occur if present trends continue unchanged. The primary objective of the Five-Year Financial Forecast is to provide the public and the City Council with an "early warning system" to identify significant issues for the forthcoming budget process. The forecast allows sufficient time to establish a plan to deal with the projected shortfall for the new fiscal year. A key part of the process is the setting of City Council service priorities in the upcoming Goals and Objectives Worksession. Results of the worksession will lay the foundation for staff to build upon in implementing some combination of the above strategies in developing a fiscally balanced proposed budget for FY 2005.